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DPP-5509

M. B. A. (F.T. & E) (Sem. II) (CBCS) Examination

March / April - 2016

CP-202 : Financial Management

Time : **3** Hours] [Total Marks : **70**

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :
☛ **M. B. A. (F.T. & E) (SEM. 2) (CBCS)**

Name of the Subject :
☛ **CP-202 : FINANCIAL MANAGEMENT**

☛ Subject Code No. : **5 5 0 9** ☛ Section No. (1, 2,.....) : **Nil**

Seat No. :

Student's Signature

(2) All the questions carry 14 marks.

(3) Question No. 1 and 7 is compulsory.

(4) Attempt any three questions from question no. 2,3,4,5,6.

(5) Show working as a part of your answer.

1 (a) Profit is an ambiguous term. Discuss in light of wealth maximization principle.

(b) Mr. X is planning to retire in 10^{th} year from now. He wants annual pension of Rs. 10,000 every year starting from 10^{th} year and continuing for 10 years. Find out how much amount should he deposit annually every year for nine years to get this benefit. Rate of interest is 10%.

2 SPIC Ltd. currently pays a dividend of Rs. 3 per share which is expected to grow at an annual rate of 14% for 3 years and 11 % p. a. in perpetuity. How much should be paid for the stock, if the rate of return required by the investors is 16%.

3 A 20 year 10% Rs. 1000 bond that pays interest half yearly is redeemable (callable) in twelve years at a buy back price of Rs. 1,150. You are required to determine

(a) The yield to call

(b) The yield to call if the buyback price is only Rs. 1,100

(c) The yield to call if instead of twelve years the bond can be called in eight years, buy back price being Rs. 1,150.

4 A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. The facility has expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows :

Year	CFBT (in rupees)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following :

(i) Pay back period

(ii) Average rate of return

(iii) Internal rate of return

(iv) Net present value at 10% discount rate

(v) Profitability at 10% discount rate.

5 XYZ Corporation is considering relaxing its present credit policy and is the process of evaluating two proposed policies. Currently, the firm has annual credit sales of Rs. 50 lakhs and accounts receivable turnover ratio of 4 times a year. The current level of loss due to bad debts is Rs. 1,50,000. The firm is required to give a return of 25% on the investment in new accounts receivables. The company's variable costs are 70% of the selling price. Given the following information, which is the better option?

	Present Policy	**Policy Option I**	**Policy Option II**
Annual Credit Sales (Rs.)	50,00,000	60,00,000	67,50,000
Accounts Receivable Turnover Ratio	4 times	3 times	2.4 times
Bad Debt. Losses	1,50,000	3,00,000	4,50,000

6 What are the advantages and disadvantages of discounting v/s. non-discounting techniques of capital budgeting.

7 Write short notes on any two of the following :

(a) Activity Based Costing (ABC) analysis

(b) Dividend Irrelevance: Miller Modigliani Hypothesis

(c) Degree of Operating and Financial Leverage

(d) NI and NOI approach of Capital Structure Theory.